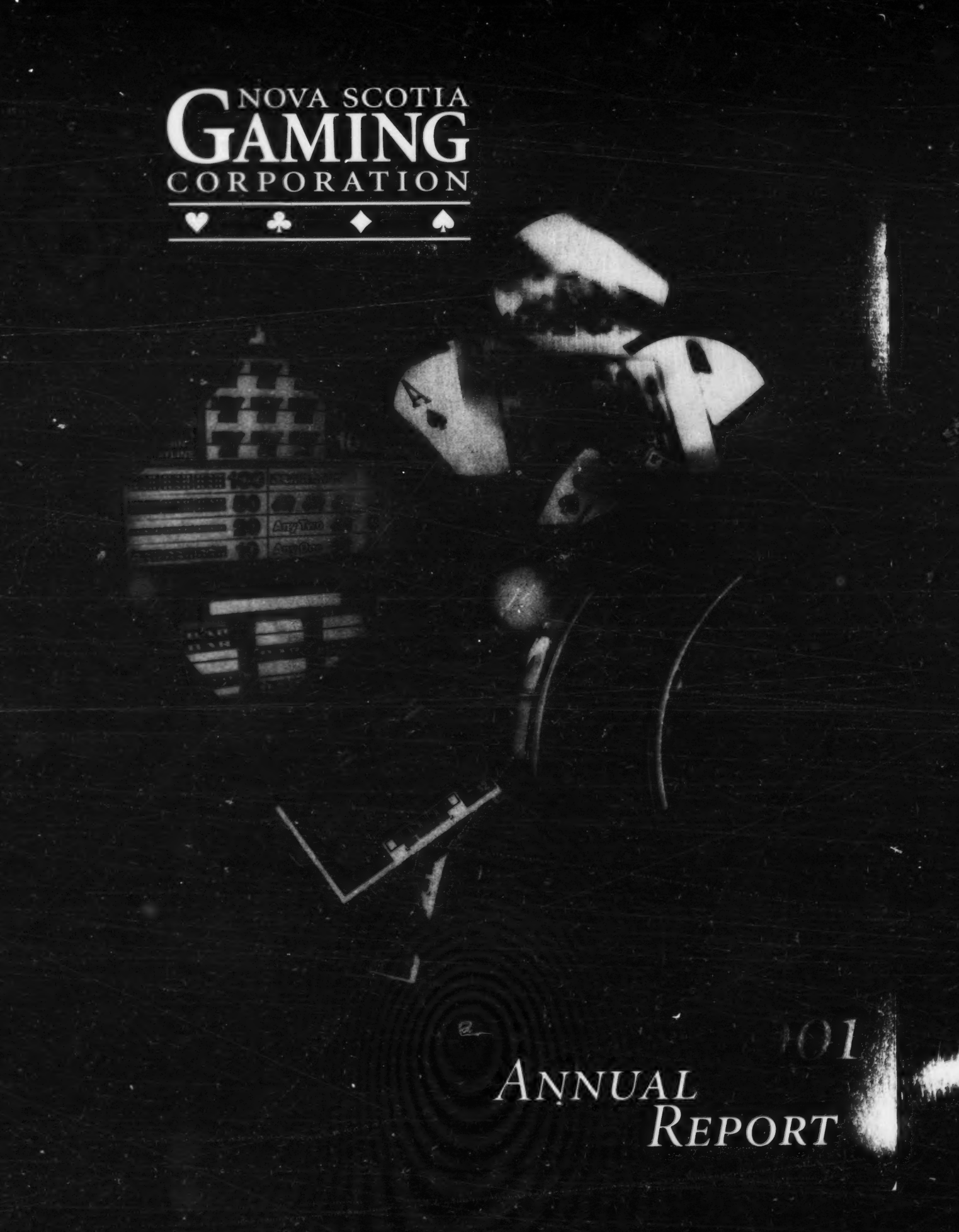
NOVA SCOTIA
GAMING
CORPORATION



ANNUAL REPORT

Corporate Profile

The Nova Scotia Gaming Corporation is a Crown corporation governed by the provincial *Gaming Control Act*. It is responsible for the conduct and management of the Province's gaming business to maximize net revenue in a responsible manner. Operations include casinos, ticket lottery and video lottery.

A three to five person Board of Directors provides strategic direction to the Gaming Corporation. The current Board members are Chair Sean O'Connor and Directors Peter Fardy, John Khattar and Stephen Mont.

The Gaming Corporation reports annually on the administration, operation and management of its businesses to the Minister of Finance, who is responsible for Part I of the *Gaming Control Act*.

The day-to-day operations of the Gaming Corporation's businesses are carried out by its agents. The Atlantic Lottery Corporation operates the ticket and video lottery businesses and the Metropolitan Entertainment Group operates Casino Nova Scotia – Halifax and Sydney.

The Metropolitan Entertainment Group is a partnership of Park Place Entertainment Scotia Limited and East Port Properties Limited.

The Atlantic Lottery Corporation's Board of Directors is comprised of representatives from the provinces of New Brunswick, Prince Edward Island, Newfoundland and Nova Scotia. Nova Scotia's share in the Atlantic Lottery Corporation is held by the Gaming Corporation. Each shareholder holds one common share.

In delegating the day-to-day operations of the lines of business to these operators, the Gaming Corporation works to ensure that both the Atlantic Lottery Corporation and the Metropolitan Entertainment Group:

- ♣ operate in an effective and efficient manner to maximize revenues for the province;
- ♦ comply with the *Criminal Code* of Canada, the *Gaming Control Act* and all applicable provincial regulations;
- ♥ respond to policy and strategic direction provided by the Gaming Corporation; and
- ♠ understand and respond to the issue of problem gambling in Nova Scotia.

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Message from the President and CEO

Building and fortifying the three business lines through strategic investments strengthens the foundation to advance the gaming industry in Nova Scotia.

Looking back on 2000-01, it was a year characterized by building and fortifying the three business lines, casino, ticket lottery and video lottery, as well as the Gaming Corporation overall. Strategic investments in time and resources were made in each of these areas to create the foundation needed to successfully move forward into the future.

Over the past year, some of the major business accomplishments have included the opening of the new permanent home for the Halifax casino, the introduction of a number of new games throughout the business lines that have been well received by players, the strengthening of operator relationships, and being the first in North America to incorporate a package of four responsible gaming features into the new Video Lottery Terminals which are being phased in over the next three years.

All of this has translated into continued growth in revenue in all three business lines as gaming attains greater acceptance in this market and more people choose it as a form of entertainment.

Building on the strength of the past few years, Board Chair Sean O'Connor welcomed new members Peter Fardy, John Khattar, and Stephen Mont. Collectively they bring a wealth of business knowledge and an enthusiastic interest in advancing the gaming industry in Nova Scotia. Sincere appreciation and thanks are extended to retiring members Ramsay Duff and William Hogg for the significant input and direction they have given to help build the Gaming Corporation.

As we look to the future and define our place in an increasingly competitive, maturing gaming environment, our planning initiatives take on an even greater importance. The gaming industry presents many challenges and opportunities including the increasingly sophisticated player who has an appetite for new and interesting games, the growth of Internet gaming in other jurisdictions, the growing demand for 'live entertainment' as part of the gaming experience and the underlying responsibility to discourage excessive play by those who misuse the products.

During the year, I had the opportunity to talk with a number of people around the province and I learned there was a limited awareness of the value of the gaming industry to Nova Scotia. Very few people knew that all of the Gaming Corporation's profit, $155.5 million in 2000-01, goes to support Government programs and services.

In addition, there are many indirect benefits to Nova Scotia. Revenue to over 1,900 retail businesses totalled almost $50 million in 2000-01. Many of these retailers are small business owners and nearly 30% of the VLT retailer group are non-profit organizations which play a unique role within their respective communities in terms of financial contributions and other forms of community support.

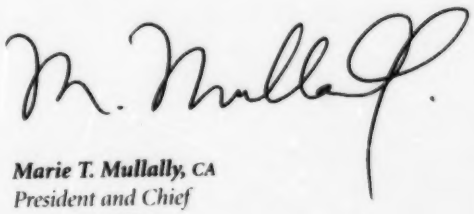
The gaming industry also stimulates jobs and wages for Nova Scotians. The two casinos alone employ over 1,000 people, with $25 million in annual salaries and benefits. There is another $3.2 million in annual salaries and benefits paid to the 70 people employed in Nova Scotia through the Atlantic Lottery Corporation Inc.

But, regardless of the economic benefits gaming brings to Nova Scotia, we cannot address the benefits of the gaming industry without talking about problem gambling and its impact on society. The Gaming Corporation recognizes that there are some misuses of its products. We have a responsibility to promote responsible play. In addition to incorporating responsible gaming features into the VLTs and implementing information programs for bar managers and staff, there is an annual contribution of $1.7 million towards problem gambling resources and programs. Nova Scotia leads the

way in contributions on a per capita basis and on a per profit basis. There are some critics who feel gaming should be banned altogether. I disagree. Gaming is not unique to our province nor is it unique to our generation. Gaming has been part of Nova Scotia's culture and history for hundreds of years. Banning gaming will not make it disappear. It will just make gaming disappear from sight.

For example, prior to the introduction of VLTs by the Province of Nova Scotia, there is evidence that there were between 3,000 and 5,000 "grey" machines operating underground in barns, garages, people's basements and other hidden venues. The machines were called "grey" because, while the machines themselves were not illegal – giving a payout was. It was possible for anyone to access the machines – adults and children alike. There was no standard prize payout – it was strictly up to the owner, which was not fair to players, and there was no effort made to provide information about addiction or problem gambling. And, lastly, none of the revenue from these machines went to Government to support its programs and services.

As we go forward, there will continue to be questions regarding gaming, as there should be. But, realistically, it is no longer a question of whether gaming should or should not exist. It is really about control. Should gaming exist in a controlled or uncontrolled environment? In the view of the Gaming Corporation, the answer is a controlled gaming environment. One that makes for better, safer communities, is more fun, entertaining and fair for the player, and one that is more prosperous for our province.



Marie T. Mullally, *CA*
President and Chief Executive Officer

Marie Mullally *was permanently appointed the President and CEO of the Nova Scotia Gaming Corporation in December 2000.*

Year in Review

CORPORATE

With many significant achievements and investments in 2000-01, the Gaming Corporation is well-positioned to effectively and responsibly conduct and manage Nova Scotia's gaming business next year. We are committed to ensuring a successful, responsible gaming industry in Nova Scotia.

NEW AGREEMENT INCREASES ANNUAL PROFIT BY $5-6 MILLION

An amended Unanimous Shareholders Agreement and a new Agency Agreement were successfully developed in 2000-01 with the Atlantic Lottery Corporation (ALC). This resulted in a new profit allocation formula, which provided approximately $5.5 million in increased profits to NSGC in 2000-01. Due to a more equitable distribution of expenses, an additional $5-6 million will come to Nova Scotia on an annual basis. While the determination of HST implications has delayed formal signing of the Agency Agreement, the Agreement was implemented in 2000-01 and it is anticipated that the HST issue will be resolved in 2001-02. The Agreement provides greater clarity on respective roles and responsibilities, as well as defines specific performance standards required by ALC in financial reporting requirements.

LEADERSHIP APPOINTMENTS STRENGTHEN GAMING CORPORATION

Three new members were appointed to the Gaming Corporation's Board of Directors in February 2001. Peter Fardy, John Khattar, and Stephen Mont joined returning Board Chair Sean O'Connor. Each new Board member brings a wealth of business and professional experience, as well as an enthusiastic interest in building a strong gaming industry in Nova Scotia.

After serving a successful one-year term as the Gaming Corporation's acting President and CEO, Marie Mullally took the helm permanently in December. With this appointment, the Gaming Corporation has made an investment that has provided stability and vision to the business of gaming.

RESPONSIBLE GAMING

The Gaming Corporation recognizes that there are some misuses of its products. To address this concern, the Gaming Corporation has continued its commitment to responsible gaming through initiatives such as its annual financial contribution towards problem gambling, the VLT Retailer Responsible Gaming Program, and the integration of four responsible gaming features into VLTs.

Nova Scotia has been proactive with efforts relating to responsible gaming. A recent study by the Canadian Foundation on Compulsive Gambling shows that Nova Scotia leads the way in problem gambling contributions on a per capita and per profit basis. An annual contribution of $1 million is made to the Department of Health to fund problem gambling programs. The Gaming Corporation and the VLT retailers make a further contribution to the Nova Scotia Gaming Foundation, bringing the overall total to $1.7 million in 2000-01.

As part of its responsible gaming strategy, the Gaming Corporation continues to support the implementation of the VLT Retailer Responsible Gaming Program (RGP). The RGP was launched in October 1999 to give VLT retailers a greater awareness of problem gambling and to provide information about available resources. Within a three to five hour classroom session, the program facilitators address topics such as: causes of problem gambling, identifying problem gamblers, resources for help, manager and staff responsibilities, how to help customers, and responsible gaming strategies

for businesses. By December, approximately 2,000 VLT retailers and their staff had participated in the program.

The four responsible gaming features to be integrated into the new VLTs are an industry-first in North America. These features provide breaks in play and reality checks for the player to discourage excessive play.

GAMING CONTROL ACT COMPLIANCE

Under section 24(1)(e) of the *Gaming Control Act*, the Gaming Corporation is required to report any defect, abuse, illegality, or criminal activity regarding gaming. During 2000-01, the Gaming Corporation reported a number of incidents to the Minister of Finance and the Nova Scotia Alcohol and Gaming Authority. The majority of incidents reported were routine in nature, such as equipment malfunctions, that did not impact on player fairness. These were centrally monitored and immediately investigated by the Gaming Corporation's operators. A few product irregularity incidents were reported during the year. These were investigated, corrected, and, if necessary, preventative measures were implemented.

Key Financial Results *($ millions)*

Actuals	00/01	99/00	98/99	97/98	96/97
Ticket lottery profit	$ 53.8	$ 53.0*	$ 38.7	$ 38.9	$ 41.1
Video lottery profit	104.8	98.1*	88.4	80.4	68.8
Atlantic Lottery Corporation overhead	(6.9)	(6.2)	–	–	–
Lotteries profit	$ 151.7	$ 144.9	$ 127.1	$ 119.3	$ 109.9
Casino net operating income	$ 8.1	$ 14.9**	$ 11.4	$ 4.6	$ 2.3
Win tax paid to province	$ 18.5	$ 16.3	$ 15.2	$ 14.8	$ 14.2

* *Ticket lottery and video lottery profits are not comparable to prior years due to the change in the profit distribution formula.*

** *Casino net operating income is not comparable to prior years due to the change in accounting policy.*

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CASINO

A new casino, new games, new restaurants, new entertainment events and new players reward/recognition programs enhance the entertainment experience for Casino Nova Scotia patrons.

OPENING OF HALIFAX CASINO

The most significant event for the casino business line was the opening of the permanent Halifax casino in April 2000. Attendance on opening day was a record-breaking 16,000.

This world-class facility has a 32,000 square foot gaming floor, including 40 table games and over 700 slot machines, 10,000 square feet of meeting and special event space, a 170-seat entertainment lounge, a 100-seat outdoor amphitheatre and three restaurants. This new space is in addition to the 15,000 square foot gaming floor offering 12 table games and 378 slot machines available at the Sydney casino.

OFFERING NEW GAMES

With the opening of the permanent facility, a variety of new games were introduced for the entertainment of patrons. New dice games, Craps and Sic Bo, an old Chinese dice game, and Caribbean Draw Poker were added to the Halifax casino. Table game revenues exceeded budget by 20% and craps led the growth by exceeding budget by 77%. Old favourites continued to be popular as games like blackjack and roulette exceeded budget by 18% and 9% respectively.

In spring 2001, approximately 400 new slot machines were acquired as part of Casino Nova Scotia's asset replacement strategy. Games like Pink Panther, Little Green Men, Fishing for Cash, and Fox and Hound are available on the new machines and have been very popular with patrons. For the year, nickel machines are approximately 8% ahead of budget, but during peak season, nickel machines were 36% and 54% ahead of budget in the 2nd and 3rd quarters. This is consistent with the popularity of nickel machines throughout the gaming industry.

LEVERAGING THE ENTERTAINMENT VALUE

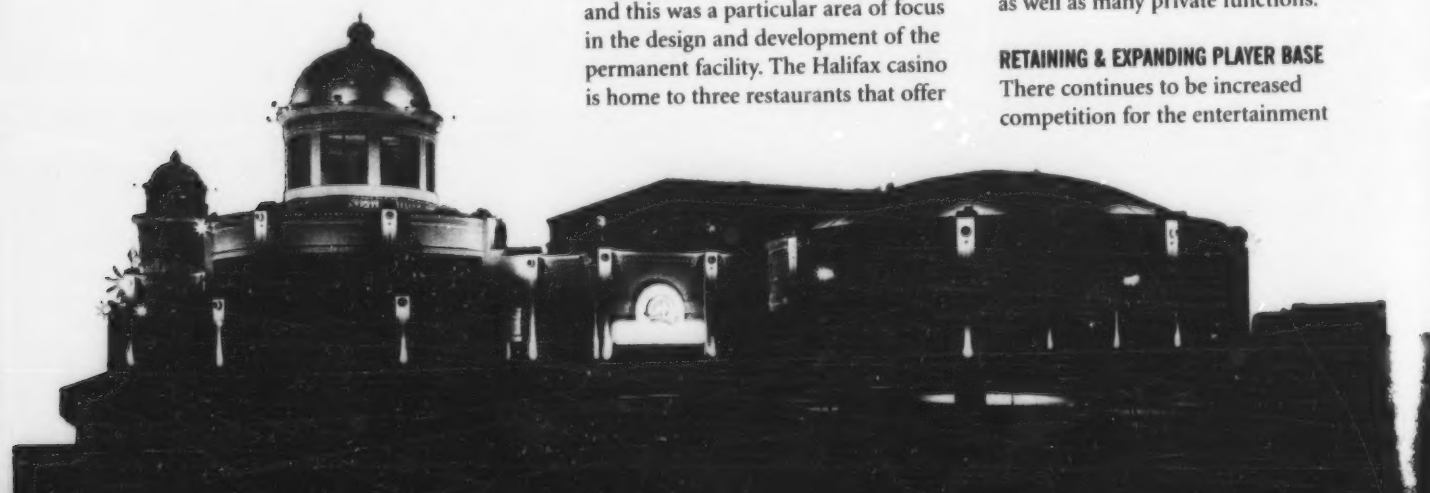
Entertainment beyond the games is an integral part of the gaming industry and this was a particular area of focus in the design and development of the permanent facility. The Halifax casino is home to three restaurants that offer distinctly different dining experiences. Bacchus, the newest dining offering, has received rave reviews from restaurant critics and customers alike. Menu selections include contemporary, global cuisine with an emphasis on simple and traditional cooking.

In 2000-01, Casino Nova Scotia continued with its strategic investment to position itself as a premiere entertainment venue in the region. The Halifax casino has three entertainment venues: the Schooner Room, the Harbourfront Lounge and the Compass Room.

In 2000-01, the Schooner Room hosted a number of quality entertainers and sold out events such as Martin Dube, Susan Aglukark, and Terri Clark. The 2000 Atlantic Jazz Festival selected the Schooner Room as its main stage and patrons were entertained by some of the finest acts in jazz music today. The Harbourfront Lounge has become one of Halifax's most popular venues for local bands and Atlantic Canadian talent. It was nominated for a 2000 East Coast Music Award for venue of the year, attesting to the quality product it offers entertainers across the region. Finally, the Compass Room has hosted a number of large and small meetings, as well as many private functions.

RETAINING & EXPANDING PLAYER BASE

There continues to be increased competition for the entertainment

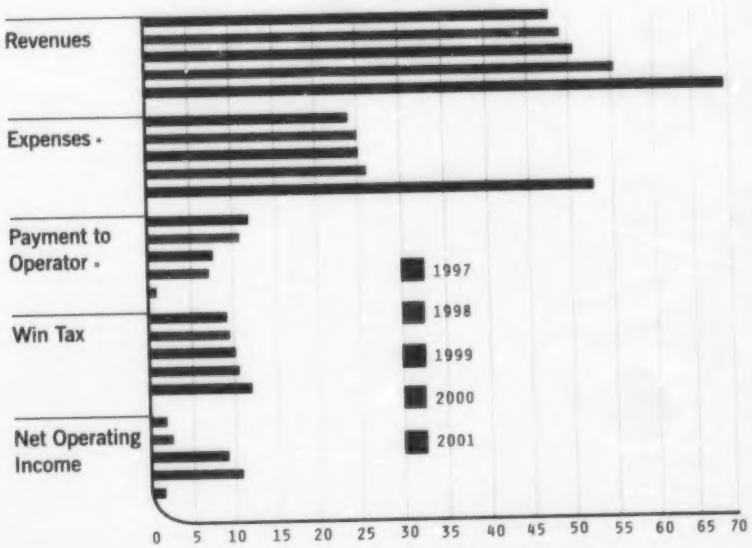


dollar. The Gaming Corporation and Casino Nova Scotia recognize the importance of developing long-term relationships with existing players and forging new relationships with players in untapped markets. Building on the strength of its Player's Advantage program, Casino Nova Scotia introduced a revamped reward program called Player's Club for casino patrons. Participants receive a Player's card, which allows them to accumulate points toward rewards such as invitations to special events, as well as discounts for casino restaurants and entertainment. Club members are eligible to participate in numerous contests and promotions offered at the casinos. The Player's Club program has been enormously popular and its enrolment has increased from 47,500 in January 2001 to approximately 67,000 current members as of the end of March 2001.

Another player program at Casino Nova Scotia is Club 55+. Patrons must be at least 55 years of age to qualify. Each month, based on the level of the play, Club 55+ members receive coupons for tokens, meals and other giveaways. Members also receive notices of current promotions and advance notice of upcoming events. This program is very successful with the 2,200 members redeeming between 80 - 90% of the monthly promotions.

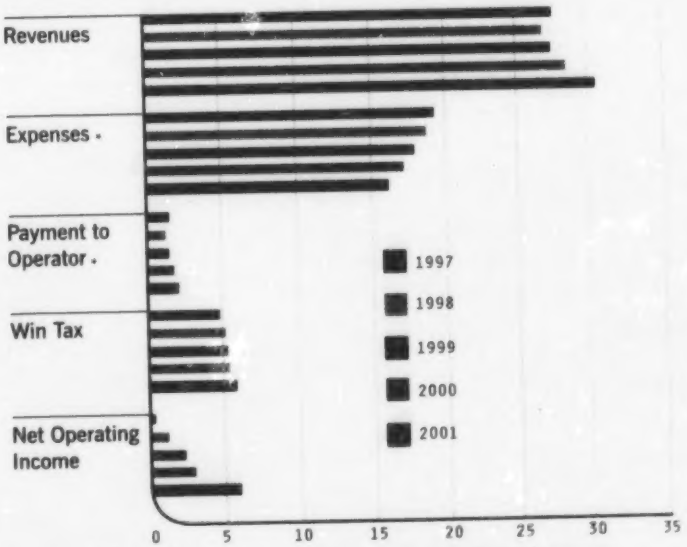
Other initiatives around player expansion and retention began in 2000-01. Specific activities in these areas included bus tour sales, collaboration with local hotels, direct mail advertising and targeted communications.

Halifax Casino Nova Scotia Annual Results *($ millions)*



**For explanation refer to Note 18 in accompanying notes to the financial statements*

Sydney Casino Nova Scotia Annual Results *($ millions)*



**For explanation refer to Note 18 in accompanying notes to the financial statements*

*The new **Halifax casino** with 32,000 square feet allocated for 40 gaming tables and 700 slot machines officially opened its doors in April 2000 . During its first year, it hosted nearly 400,000 people in its three dining areas. As well, the Schooner Room was the venue of choice for more than 20 different musical and comedy acts, while the Harbourfront Lounge was the stage for more than 100 acts during the year.*

TICKET LOTTERY

New games for players. New equipment and processes for retailer network. Investment in a mature business makes it stronger.

MAXIMIZING A MATURE BUSINESS

The ticket lottery program, the most mature of the three gaming business lines managed by the Gaming Corporation, provides the greatest opportunity for new products.

Each year, Nova Scotians buy approximately $200 million worth of lottery tickets, of which over $100 million is allocated for prizes and another $17 million is paid out in commissions to the 1,400 retailers across the province.

OFFERING NEW GAMES

In May 2000, Atlantic Lottery Corporation (ALC) launched the Tall Ships Breakopen ticket – a special event ticket in support of Tall Ships 2000. The Tall Ships ticket was a popular choice, with over $2.7 million in sales.

On September 25, 2000, Atlantic Canada's newest lotto game, Wild 5, was launched and its debut draw was held in October. Wild 5 was strategically positioned as an Atlantic Canada – only game with some of the best overall odds of winning of any of the games currently offered by ALC. Its sales target was exceeded by over 40%, with $4.4 million in sales for the year. Wild 5 offers Nova Scotia players

Atlantic Canada's WILD 5

many ways to win through the Match 5, Wild Ball and Win 5 games. Numbers can either be chosen by the player or randomly selected by lottery computers. Every Thursday night, five 7-digit numbers are randomly drawn from only those tickets sold for that particular night's draw. This guarantees that five players will win $5,000 every week. In addition to the top prizes of $500,000 and $200,000, and the five guaranteed prizes of $5,000, other cash prizes and free plays are available to be won.

In February 2001, ALC launched a new $4 ticket with a unique top prize. Set for Life offers a top prize of $1,000 a week for 25 years. Players also have the option of taking a lump sum payment of $675,000. Since its launch, the ticket has generated $2.9 million in sales, surpassing its budget by 75%.

STRENGTHENING THE DISTRIBUTION SYSTEM

While new products are important to this part of the gaming industry, a strong distribution system is an absolute necessity. Significant investment was made to this area during 2000-01 with ALC implementing three new initiatives: the rollout of the new Lottery Retail Terminals (LRTs), the introduction of a Multi-purpose Retail Terminal (MRT), and a comprehensive retailer assessment process.

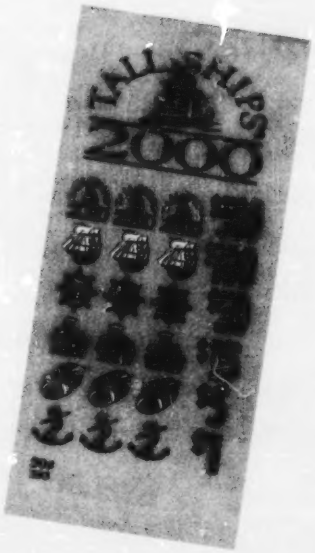
LRTs are state-of-the-art, computer based terminals developed in Atlantic Canada. Retailers need LRTs to produce tickets such as Lotto 6/49, Super 7, Wild 5, and validate all lottery tickets with the exception of Breakopen. The new LRTs provide several improvements including: increased speed, a touch screen, a thermal printer that is quieter, faster and requires less maintenance, and perhaps most significantly, the capacity to add new games. ALC deemed the investment in these new terminals necessary in order for its retailers to effectively sell and validate lottery tickets. The rollout of LRTs to replace older terminals began in August, 2000. All 1,200 LRTs are expected to be in place by the fall of 2001.

The Lottery Retail Terminals (LRTs) rolled out during the year are a significant improvement over the machines being replaced. One of the new benefits to the LRTs is the capacity to add on new games.

The second initiative launched by ALC in 2000-01 was the rollout of the new MRT with technology more cost efficient than the full service LRT. The MRT, which looks very similar to a debit machine, enables retailers to sell and validate instant tickets. It represents a strategic expansion of ALC's distribution channel as the MRT allows lower volume retailers the opportunity to sell and validate instant products. MRTs also provide retailers with reporting and supply ordering capabilities. Approximately 100 MRTs were installed across Nova Scotia in 2000-01, and a total of 300 MRTs are to be installed by March 2002.

The third initiative in this group was the introduction of a comprehensive assessment process for prospective and existing retailers. ALC will conduct a scorecard-based assessment of each retail location that evaluates the following elements: sales range, retailer commitment, customer service, store presentation, hours of operation, business type, and location. As well, retailers must agree to train staff, undertake promotion initiatives, provide good customer service and appropriate store presentation in order to maintain their full service ALC retailer status.

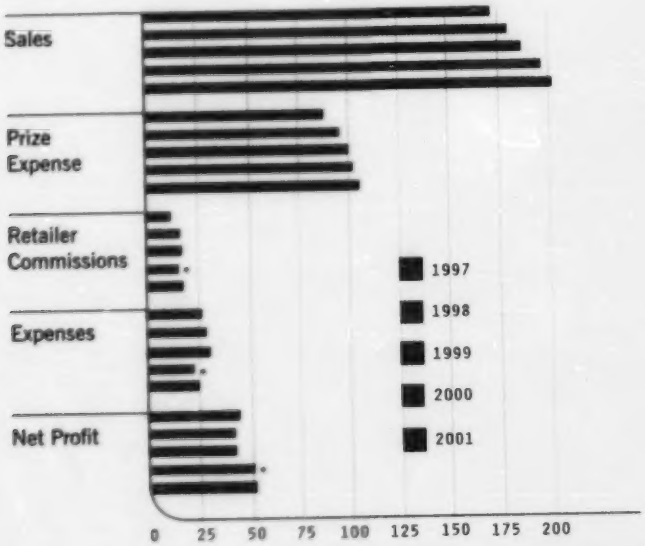
The assessment process will help ensure that the LRTs and MRTs are placed in the best locations and the products offered are suited for that location.



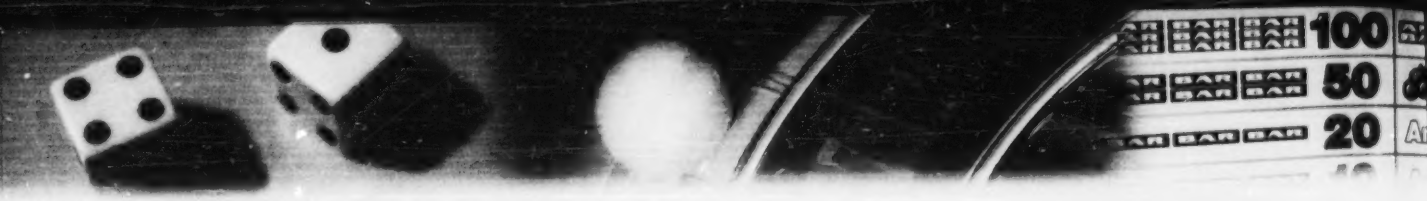
Wild 5 *and* ***Set for Life*** *were two of the new games introduced into the market in 2000-01. The third was a limited edition breakopen ticket to commemorate the* ***Tall Ships*** *event during the summer.*

Ticket Lottery Annual Results

($ millions)



**A revised profit sharing formula has resulted in an equitable distribution of ALC expenses, as well as a reallocation of overhead.*



VIDEO LOTTERY

The VLT Replacement Plan, a strategic investment for the business. In developing the new machines, the Gaming Corporation made it a priority to incorporate customer service and security features that had been requested by the retailers, as well as a package of four responsible gaming features, which is a first in North America.

THE VIDEO LOTTERY BUSINESS LINE

Through its agent, Atlantic Lottery Corporation Inc. (ALC), the Gaming Corporation manages approximately 3,200 video lottery terminals (VLTs) which operate in licensed establishments across Nova Scotia 17 hours per day, seven days per week. In addition, there are approximately 400 VLTs located in nine of ten First Nations communities that have entered into gaming agreements with the Province. ALC's role is to supply and service these machines, pursuant to the gaming agreements signed by the Bands and the Province.

NEW VLTS... RE-INVESTING IN THE BUSINESS

In December 2000, the Gaming Corporation announced that it would be replacing 3,200 video lottery terminals, including the 400 in First Nations communities, with new VLTs that offer new games and features designed to discourage excessive play. The announcement of the VLT Replacement Plan is the most significant initiative since the introduction of VLTs. The majority of the province's VLTs are outdated, have outlived their life expectancy, and can no longer be properly serviced.

The new VLTs will be equipped with bill acceptors, introducing to Nova Scotia players what has become an industry standard. Retailers have requested this feature, which will provide better security when handling money from the machines.

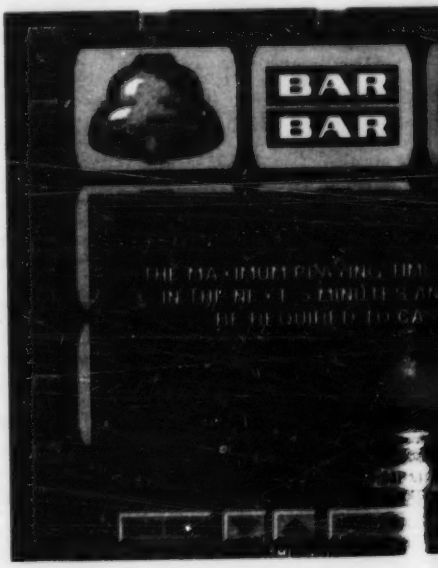
The Replacement Plan will span two - three years and occur in three phases. The plan is to replace 1,000 machines during Phase I and 1,100 machines in each of the next two phases. Approximately 400 existing machines will be upgraded with software. Phase I is scheduled to be completedby November 2001.

VLT RESPONSIBLE GAMING FEATURES, A FIRST IN NORTH AMERICA

The Gaming Corporation's commitment to responsible gaming was paramount in its decision to purchase new VLT machines. Part of the investment strategy includes four responsible gaming features that were developed in consultation with problem gambling experts, video lottery manufacturers and focus groups.

A first in North America, these features are intended to help discourage excessive play by providing important reality checks for the player and interruptions in play, which should create awareness for an individual's play behaviour. The features consist of: pop-up reminders that indicate play duration after 60 minutes and then at 30-minute intervals and asking each time if the player wishes to continue, a mandatory cash-out requirement after 150 minutes of play, a permanent clock to remind players of the time of day, and amounts wagered shown in dollars, not credits.

The VLT Retailer Responsible Gaming Program (RGP) is another example of the Gaming Corporation's commitment to responsible gaming. The program was developed in 1999 through a cooperative approach with the Tourism Industry Association of Nova Scotia, VLT retailers, problem gambling experts and the Department of Health, Addiction Services. This innovative and nationally recognized program provides VLT retailers and their staff with information about problem gambling and available resources so they can enhance their business practices and direct problem gamblers to help, rather than counsel patrons. By December, close to 2,000 bar owners, managers, and staff had participated

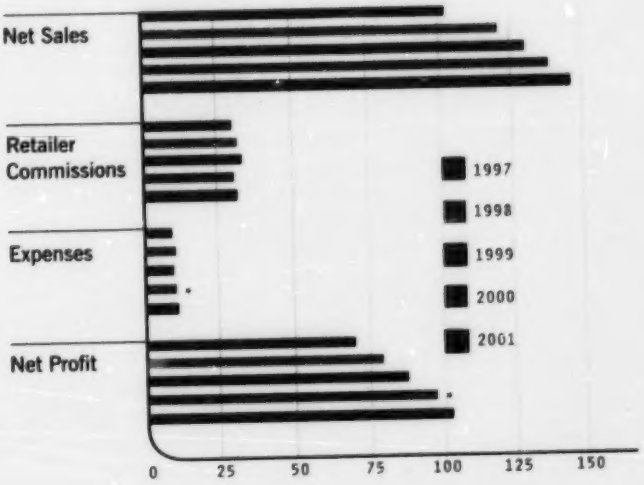


in this program. In 2000-01, three different research techniques were undertaken to evaluate the program: in-session evaluations, mail surveys and telephone surveys. Here are some of the response highlights:

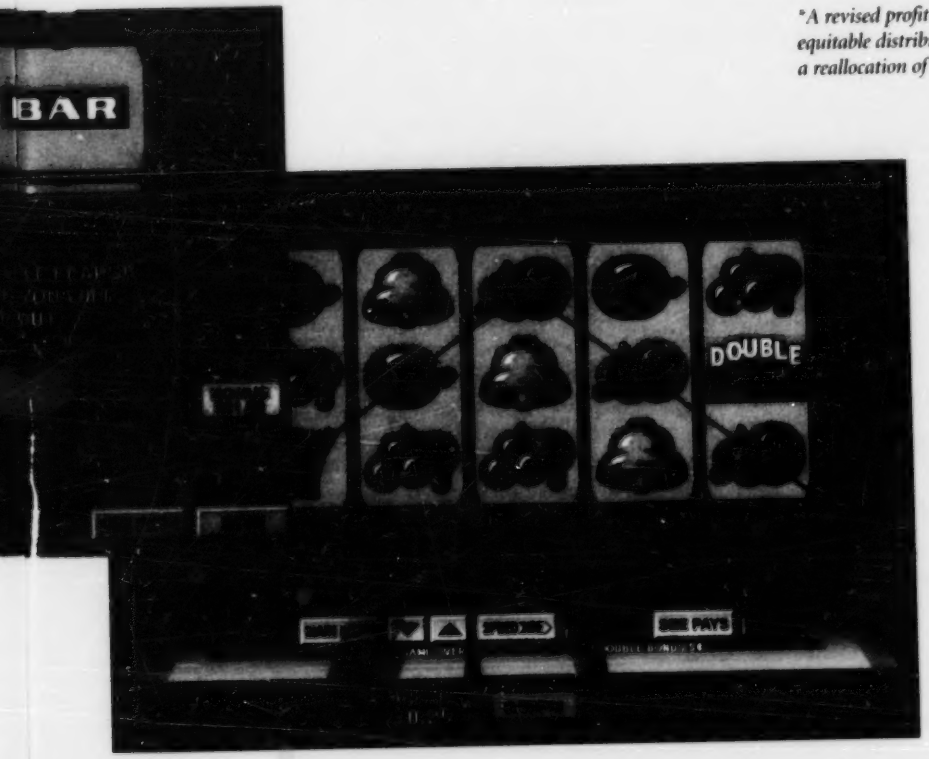
- ♣ 94% of the participants rated the program "good" to "excellent"
- ♦ 93% of the participants got what they expected or more from the program
- ♥ 93% of the participants felt equipped to provide referral information to problem gamblers
- ♠ 79% of the participants would recommend the program to others in the video lottery industry

Video Lottery Annual Results

($ millions)



**A revised profit sharing formula has resulted in an equitable distribution of AIC expenses, as well as a reallocation of overhead.*



*The **Video Lottery Terminal Replacement Plan** was announced in December 2000. A first in North America, these new VLTs incorporate four responsible gaming features which have been designed to help discourage excessive play. The features include a clock, credits shown in dollar amounts, pop-up reminders after 60 minutes of play, and in 30-minute intervals thereafter with a mandatory cash-out after 150 minutes of play.*

Summary of Financial Results

CORPORATE

STRATEGIC INVESTMENTS

- The Gaming Corporation made significant investments in all three of its business lines - casinos, ticket lottery and video lottery. These investments culminated in a stronger organization which is focused on offering a quality entertainment value for players.

FINANCIAL HIGHLIGHTS

- The Gaming Corporation's 2000-01 net income was $155.5 million, with payments to the Province, including the $18.5 million win tax, totalling $174.0 million.
- Better performance in the lotteries resulted in an overall net income that was $6.5 million higher than in 1999-00. The casino net income was $1.8 million lower than the previous year as the Gaming Corporation began to expense the costs of the new Halifax facility.
- The Atlantic Lottery Corporation Inc.'s shareholders agreed to a new profit distribution formula, resulting in a more direct and appropriate allocation of expenses. The Gaming Corporation received an additional $5.5 million in 2000-01 as a result of this change.

CASINOS

STRATEGIC INVESTMENTS

- The permanent Halifax casino opened in April 2000. The total construction cost of the facility is currently estimated at $89 million. The actual final cost is expected to be determined in the fall of 2001 upon the completion of further discussions with the operator, pursuant to the dispute resolution clause contained in the Casino Operating Contract.
- With the casino opening, the Gaming Corporation began capital cost repayments to the casino operator. For 2000-01, the amount paid was $13.6 million.
- The Gaming Corporation continued its repayment of the capital costs of the $23.2 million Sydney casino. In 2000-01, the amount paid was $3.7 million.
- Casino Nova Scotia acquired approximately 400 new slot machines in late 2000-01, representing a $4.6 million investment. The new machines have been well received by players and the new games are expected to appeal to a broad player base.

FINANCIAL HIGHLIGHTS

- The Halifax casino revenues grew by approximately $13.6 million, but net income was $9.3 million lower than the previous year. This drop in income is attributable to the interest expense on the Halifax casino capital costs and recognition of the amortization expense on the assets.
- The Sydney casino net income was $2.4 million higher than the previous year as a result of increased slot revenues and effective expense management. In particular, the recently introduced nickel slot machines have been popular with players, with revenue exceeding budget by 70%.
- Within the Casino Operating Contract, there is an income guarantee provision that guaranteed $25 million in total revenue to the Province in each of the four years ended July 31, 1999. In the fifth year of the contract, which ended July 31, 2000, if the Provincial revenue exceeded $25 million, any previous guarantee payments could be recovered by Casino Nova Scotia.

As a result of this income guarantee provision, a repayment of $0.7 million was made to Casino Nova Scotia for the months of April to July 2000. Last year, the repayment of $5.8 million was for a 12-month period. The income guarantee provision will not impact future years.

TICKET LOTTERY

STRATEGIC INVESTMENTS

- The Gaming Corporation strengthened its investment in the ticket lottery business with the purchase of approximately 800 Lottery Retail Terminals (LRTs) during 2000-01. The $10 million investment in these terminals will provide the infrastructure to support the addition of new games and make it easier for the 1,400 provincial retailers to sell and validate tickets.

FINANCIAL HIGHLIGHTS

- Net income was $53.8 million, $0.8 million higher than in 1999-00. This increase in income was primarily the result of the positive performance of two new ticket games – Wild 5 and Set For Life.

- In addition, the Super 7 game revenue increased by 15% over the previous year due to higher than average jackpots, which typically increase the demand for the ticket.

- These increases were, however, largely offset by a 25% decrease in Bingo instant ticket sales, as well as the introduction of lease expenses for the new LRTs in 2000-01.

VIDEO LOTTERY

STRATEGIC INVESTMENTS

- The Gaming Corporation continued its financial investment in the VLT Retailer Responsible Gaming Program by contributing $0.6 million over the past two years.

- The Video Lottery Terminal (VLT) Replacement Plan was announced in December 2000 with the first group of VLTs to be rolled out in May 2001. By the end of the third phase of the Replacement Plan, all 3,200 VLTs will be new or upgraded machines.

FINANCIAL HIGHLIGHTS

- Net income was $104.8 million, $6.7 million higher than the previous year due to the timely and effective management of the VLT inventory, combined with software upgrades.

Management Responsibilities for Financial Reporting

These financial statements are the responsibility of the management of the Nova Scotia Gaming Corporation. They have been approved by its Board of Directors.

Management has prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

The gaming activities of the Nova Scotia Gaming Corporation are undertaken by operators acting on its behalf. These gaming activities are audited by independent auditors. The Corporation relies on the audit opinions of these independent auditors. The responsibility of the Auditor General of Nova Scotia is to express an independent opinion on whether the financial statements of the Nova Scotia Gaming Corporation are stated fairly, in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Nova Scotia Gaming Corporation maintains books of accounts and systems of financial and management control, which provide reasonable assurance that accurate financial information is available, that assets are protected, and that resources are managed efficiently.

The Board of Directors oversees audit activities through its audit committee. The committee reviews matters related to accounting, auditing and internal control systems, and the financial statements and audit reports of the auditors of the Corporation and its operators.

M. Mullally

Marie T. Mullally, *CA*
President and Chief Executive Officer

Lisa M. Jardine

Lisa M. Jardine, *CA*
Corporate Controller

Auditor's Report

NOVA SCOTIA

Office of the Auditor General

To the Members of the Legislative Assembly
of Nova Scotia; and
To the Minister of Finance

I have audited the balance sheet of the Nova Scotia Gaming Corporation as at March 31, 2001 and the statement of income and retained earnings for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

E R Salmon

E.R. Salmon, *FCA*
Auditor General
Halifax, Nova Scotia
May 31, 2001

Balance Sheet

as at March 31, 2001 (in thousands)

ASSETS

	2001	Restated 2000
		(Notes 4, 16, and 18)
Current		
Cash & Short-term Investments *(Note 3)*	$ 17,123	$ 12,140
Cash – Restricted *(Note 2)*	6,991	4,285
Accounts Receivable	–	10
Inventory	2,500	2,111
Prepaids	251	161
	26,865	18,707
Long-term		
Cash – Casino Replacement Reserve *(Note 3)*	5,080	3,699
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation *(Note 6)*	1	1
Capital Assets *(Note 7)*	114,693	27,712
	119,775	31,413
	$ 146,640	$ 50,120

LIABILITIES

Current		
Accounts Payable	$ 1,298	$ 1,302
Deferred Lottery Revenue	923	1,129
Liabilities for Unclaimed Prizes *(Note 2)*	6,991	4,285
Capital Obligation – Current Portion *(Note 8)*	22,496	2,320
Due to Nova Scotia Harness Racing Incorporated *(Note 11)*	–	91
Due to Operators *(Note 12)*	10,122	8,968
Due to Atlantic Gaming Equipment Limited	12,118	8,715
Due to Nova Scotia Gaming Foundation	68	56
Due to Province of Nova Scotia	13,706	8,069
	67,722	34,935
Long-term		
Capital Obligation *(Note 8)*	72,451	10,056
	140,173	44,991

EQUITY

Casino Capital Replacement Reserve *(Note 9)*	6,467	5,129
	$ 146,640	$ 50,120

Contingencies and Commitments *(Notes 3, 5, 11, 14 and 15)*

See accompanying notes to the financial statements.

Balance Sheet

as at March 31, 2001 (in thousands)

ASSETS

	2001	Restated 2000
		(Notes 4, 16, and 18)
Current		
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Casino Capital Replacement Reserve *(Note 9)*	6,467	5,129
	$ 146,640	$ 50,120

Contingencies and Commitments *(Notes 3, 5, 11, 14 and 15)*

See accompanying notes to the financial statements.

Statement of Income and Retained Earnings

for the year ended March 31, 2001 (in thousands)

	Lotteries (Schedule I)			Casinos
	Ticket Lottery	**Video Lottery**	**Overhead**	**Halifax**
Revenues	$ 204,055	$ 146,497	$ –	$ 69,18
Expenses	150,277	41,732	6,879	67,19
Profit Distribution	$ 53,778	$ 104,765	$ (6,879)	$ 1,98
Other Income				
Other Expenses				
Special Payments and Bonus Commissions *(Note 5)*				
Nova Scotia Gaming Foundation Contribution *(Note 2)*				
Nova Scotia Harness Racing Fund Contribution *(Note 11)*				
Management Expenses *(Schedule IV)*				
Ticket and Video Lotteries Repatriation Costs *(Note 4)*				
Income Guarantee Repayment *(Notes 2 and 3)*				
Net Income				
Retained Earnings, Beginning of Year				
Payments to Province				
Retained Earnings, End of Year				

See accompanying notes

		Lotteries			Casinos		
Sydney	2001 Total	Ticket Lottery	Video Lottery	Overhead	Halifax	Sydney	Restated 2000 Total
							(Notes 14, 16, and 18)
31,029	$ 450,763	$ 194,620	$ 138,242	$ –	$ 55,635	$ 28,516	$ 417,013
24,966	291,049	141,598	40,147	6,175	44,382	24,836	257,138
6,063	159,714	$ 53,022	$ 98,095	$(6,175)	$ 11,253	$ 3,680	159,875
	1,016						1,402
	213						216
	732						691
	1,000						1,752
	2,542						2,351
	–						1,394
	700						5,784
	5,187						12,188
	155,543						149,089
	–						–
	155,543						149,089
	$ –						$ –

ne financial statements.

Sydney	2001 Total	Lotteries (Schedule I) Ticket Lottery	Video Lottery	Overhead	Casinos (Schedule II) Halifax	Sydney	Restated 2000 Total
							(Notes 14, 16, and 18)
31,029	$ 450,763	$ 194,620	$ 138,242	$ –	$ 55,635	$ 28,516	$ 417,013
24,966	291,049	141,598	40,147	6,175	44,382	24,836	257,138
6,063	159,714	$ 53,022	$ 98,095	$(6,175)	$ 11,253	$ 3,680	159,875
	1,016						1,402
	213						216
	732						691
	1,000						1,752
	2,542						2,351
	–						1,394
	700						5,784
	5,187						12,188
	155,543						149,089
	–						–
	155,543						149,089
	$ –						$ –

the financial statements.

Notes to the Financial Statements

for the year ended March 31, 2001

Description of Business

The Corporation was incorporated on February 15, 1995, by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The purpose of the Corporation is to develop, undertake, organize, conduct and manage casinos and other lottery schemes on behalf of the Province.

Accounting Policies

a) **Basis of Presentation**
The financial statements have been prepared in accordance with generally accepted accounting principles. A statement of cash flows is not provided as disclosure in the balance sheet and the income statement is considered adequate.

b) **Casino Revenues**
In accordance with industry practice, casino revenues are reported as the net win from gaming activities, which is the difference between amounts wagered and amounts paid as winnings. Casino revenues are reported net of accruals for anticipated amounts to be paid as winnings for progressive slot machine jackpots.

c) **Ticket Lottery Revenues**
In accordance with industry practice, gross ticket lottery sales are recorded before deducting sales discounts and prize expense.

d) **Video Lottery Revenues**
In accordance with industry practice, video lottery revenues are reported as the net revenues from video lottery activities, which is the difference between amounts wagered and amounts paid as winnings.

e) **Income Guarantee**
In accordance with the Operating Contract between Metropolitan Entertainment Group (Operator), the Corporation and Sheraton International Inc. (Guarantor), an income guarantee was provided to the Corporation, which provided that if Total Provincial Revenue was less than $25 million in each of the four years ended July 31, 1999, then the Operator would pay to the Corporation an amount equal to the difference between Total Provincial Revenue and $25 million. Total Provincial Revenue was defined to include the aggregate of casino win tax (20%) paid to the Province of Nova Scotia, annual registration fees of $100,000 paid to the Nova Scotia Alcohol and Gaming Authority and the annual net operating income of the Corporation from the casino complexes.

If Total Provincial Revenue exceeded $25 million in any year through to July 31, 2000, any previous guarantee payments paid by the Operator to the Corporation would be recovered to the extent Total Provincial Revenue is in excess of $25 million in such year. The Corporation records any repayments to the Operator as a reduction of net income of the Corporation *(Note 3)*.

f) **Capital Assets**
Capital assets are stated at cost less accumulated amortization.

Amortization on the Corporation's head office capital assets is provided on the declining balance basis at the following annual rates:

Computer equipment – 30%
Furniture and equipment – 20%

Amortization of the Halifax and Sydney casino assets is recorded on a straight-line basis according to their estimated useful lives at rates between 2.5% and 20%.

Amortization on the Corporation's capital assets used in the operation of its lottery businesses is recorded on the straight-line basis according to their estimated useful life at rates between 10% and 33%. Leasehold improve-

ments are amortized over the remaining lease term, including one renewal period.

g) **Nova Scotia Gaming Foundation Contribution**
VLT retailers in Nova Scotia have agreed, under the terms of their retailer agreements with Atlantic Lottery Corporation Inc., to contribute 1% of their VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

h) **Long-term Investments**
Investments in the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation are recorded using the cost method of accounting for investments.

i) **Unclaimed Lottery Prizes**
Unclaimed prizes from regional lottery games are retained in a prize fund for one year from the announced beginning date of the draw. Prizes of national lottery games are funded directly by the Interprovincial Lottery Corporation with the exception of prizes for certain free tickets, which are paid out of general funds as incurred.

j) **Use of Estimates**
In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Casino Nova Scotia

a) **Operating Contract**
i) Term and Structure
On May 31, 1995, the Corporation entered into an Operating Contract with Metropolitan Entertainment Group (Operator), then a partnership between ITT Sheraton Canada Ltd. (now Park Place Entertainment Scotia Limited) and Purdy's Wharf Development Limited (now East Port Properties Ltd.), to operate casinos in Halifax and Sydney for a period expiring on December 31, 2015.

ii) Payments to Operator
The Operator is entitled to certain payments from each casino calculated with reference to the following items, which are listed in Section 4.7 of the Operating Contract:

- an amount based upon the Operator's Capital Investment in Halifax ($89.0 million total, $84.3 million outstanding) and Sydney ($23.2 million total, $10.1 million outstanding) with respect to each casino complex, to be amortized straight-line over a three-year term in the Halifax interim casino, a ten-year term in the Sydney casino and a seven-year term in the Halifax permanent casino, with interest calculated monthly at 12% per annum on the total outstanding capital investment;
- an amount equal to 1.5% of casino revenue before casino win taxes (20%) to fund a capital replacement reserve;
- an amount equal to 3% of casino revenue before casino win taxes (20%) in Sydney as a Base Fee and 10% of casino revenue less casino win taxes, the Base Fee and Operating Expenses as an Incentive Fee;
- an amount equal to the Operator's shortfall in any one year that income is insufficient to make payments, as described above; and
- an amount equal to 35% of cash available for distribution in Halifax.

iii) Operating Period
Net operating income earned by the Corporation is calculated based upon the operating period defined in the Operating Contract as January 1 – December

Notes to the Financial Statements
(continued)

31. Any net operating income earned by the Corporation during the period January 1 – March 31, 2001 is subject to adjustment for the results of operations in the period April 1 – December 31, 2001.

b) Cash in Casino Accounts
Under the Operating Contract, the cash is managed by the Operator on behalf of the Corporation. The Corporation has included $11,140,000 (2000 - $6,756,000) in cash from the Casino Accounts on the Balance Sheet.

c) Income Guarantee
The income guarantee and clawback periods were over on July 31, 2000. Payments/Repayments for these periods were as follows:

($ thousands)	
July 31, 1996	$ 9,621
July 31, 1997	5,813
July 31, 1998	5,564
July 31, 1999	(4,379)
July 31, 2000	(4,498)
Net payment received	$12,121

Between April 1, 2000, and July 31, 2000, Total Provincial Revenue exceeded the income guarantee pro-rata allocation by $700,000 (2000 - $5,784,000), which reduced the Corporation's net operating income for the year *(Note 2)*.

d) Interest on GST/HST Award
On January 28, 2000, the Corporation received payment of $21.6 million from Metropolitan Entertainment Group in satisfaction of an award made in favour of the Corporation following arbitration over the interpretation of GST/HST in the Operating Contract. The arbitrator's award included interest of $1.2 million.

e) Casino Option Contract
Upon expiration of the Operating Contract in 2015, the Corporation has the option to purchase each of the Halifax and the Sydney casino complexes, including capital assets and working capital totalling $3.1 million, for the price of $1.00. The Corporation also has an option to purchase each of the two casino complexes in year 10 or year 15 of the Contract.

f) Capital Replacement Reserve
A capital replacement reserve, based on 1.5% of annual gross operating revenues of the casinos, is intended to provide for replacement of casino capital assets.

Atlantic Lottery Corporation Inc.

a) Profit Distribution
In 1976, the Atlantic Lottery Corporation Inc. was set up by the four Atlantic Provinces to operate lottery and gaming activities in the region.

The Atlantic Lottery Corporation Inc. is the Corporation's exclusive agent to operate ticket lotteries and video lotteries in Nova Scotia. Each of the Corporation, Province of Newfoundland, Lotteries Commission of New Brunswick and Prince Edward Island Lotteries Commission own 25 per cent of the Atlantic Lottery Corporation Inc.

In March 1999, the Corporation served notice to Atlantic Lottery Corporation Inc. of its intention to withdraw its ticket and video lottery businesses from the Atlantic Lottery Corporation Inc. On January 21, 2000, an agreement in principle was reached among the shareholder provinces for the Corporation to continue as a shareholder of the Atlantic Lottery Corporation Inc. and to continue to operate its lottery businesses through the Atlantic Lottery Corporation Inc. As a result, all ticket and video lottery repatriation costs were expensed during the year ended March 31, 2000.

b) Agency Agreement
The Corporation entered into an Agency Agreement (the "Agreement") with the Atlantic Lottery Corporation Inc. whereby the Corporation

has appointed the Atlantic Lottery Corporation Inc. to operate ticket and video lotteries in Nova Scotia as an agent of the Corporation on the terms and conditions set out in the Agreement. Under the Agreement, the Atlantic Lottery Corporation Inc. cannot make any material change relating to the conduct and management of lotteries in Nova Scotia without the approval of the Corporation. The Agreement has not yet been signed; however, it has been implemented operationally since April 1, 2000. Management does not believe that there will be any significant changes to the financial statements as a result of signing the Agreement.

The Agreement requires that the Corporation's revenues be kept in a separate account and not co-mingled with those of the other provinces. The Corporation's costs are to be deducted from its account. The Agreement clarified that assets acquired or liabilities incurred by Atlantic Lottery Corporation Inc. exclusively for the operation of the lotteries in Nova Scotia are the Corporation's. As a result, for financial statement reporting purposes, the Corporation has included these assets and liabilities on its balance sheet, with the balance recorded as amounts due to the Atlantic Lottery Corporation Inc. or Atlantic Gaming Equipment Limited (a subsidiary of the Atlantic Lottery Corporation Inc.), as appropriate. The Corporation has not recorded any portion of those assets and liabilities that are shared by all Atlantic Lottery Corporation Inc. shareholders in which the Corporation has an interest, the treatment and valuation of which has not yet been determined. This includes common capital assets and expired prizes in the unclaimed prize fund pre-April 1, 2000. Consideration will be given to recording these assets and liabilities once the Atlantic Lottery Corporation Inc. By-Laws are revised, which is expected to occur in 2001-02.

The amounts due to the Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited represent a portion of the Atlantic Lottery Corporation Inc.'s line of credit, which bears interest at prime less 1% on borrowings equal to funds on deposit and prime for amounts borrowed in excess of funds on deposit. The line of credit is secured by a general security agreement over all assets of the Atlantic Lottery Corporation Inc., and those owned by the Corporation.

For comparative purposes, the Corporation has recorded the assets and liabilities retroactively, resulting in the restatement of the March 31, 2000 balance sheet. As a result, total assets at March 31, 2000 increased by $16,207,000 and total liabilities increased by $16,207,000.

The assets and liabilities recorded by the Corporation are recorded for financial statement reporting purposes only and do not necessarily represent the values that the Corporation would take if it were to withdraw from the Atlantic Lottery Corporation Inc.

Special Payments and Bonus Commissions

The Corporation is obligated to make direct payments annually to three provincial government bodies as follows:

($ thousands)	2001	2000
The Department of Education and Culture *(in support of the Cultural Federation of Nova Scotia)*	$ 50	$ 50
The Department of Agriculture and Fisheries *(in support of the Exhibition Association of Nova Scotia)*	50	50
The Sport and Recreation Commission *(in support of Sport Nova Scotia)*	100	100
	$200	$200

These payments are special funds under the *Provincial Finance Act* established by the Minister of Finance under Section 14(1) of the *Atlantic Lottery Regulations* as made under the *Gaming Control Act*.

Bonus commissions of $13,000 (2000 - $16,000) were paid during the year to ten sporting and cultural organizations.

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Bonus commissions of $13,000 (2000 - $16,000) were paid during the year to ten sporting and cultural organizations.

Notes to the Financial Statements
(continued)

6 Interprovincial Lottery Corporation

The Interprovincial Lottery Corporation was incorporated on August 16, 1976, under the *Canada Business Corporations Act*. Interprovincial Lottery Corporation owns and operates nation-wide lottery games (Lotto 6/49, Super 7, Special Event – Celebration). Nova Scotia holds one of ten shares of this Corporation, and appoints one of 21 directors to the Board of Directors of the Interprovincial Lottery Corporation.

7 Capital Assets

($ thousands)	Cost	Accumulated Amortization	2001 Net Book Value	Restated 2000 Net Book Value
Automotive	$ 576	$ 112	$ 464	$ –
Computer equipment	4,824	2,876	1,948	633
Furniture & equipment	129	44	85	205
Leaseholds	608	170	438	1,009
Halifax casino assets	89,118	2,958	86,160	–
Sydney casino assets	23,206	9,492	13,714	15,035
Casino furniture & equipment	2,524	1,138	1,386	1,429
On-line gaming terminals	8,870	634	8,236	7,111
Video lottery terminals	23,366	21,104	2,262	2,290
	$153,221	$38,528	$114,693	$27,712

8 Capital Obligation

The Corporation has an obligation to repay the operator of the casinos under the Operating Contract for the initial cost of the Halifax and Sydney casinos to the extent that there is adequate cash flow from the casinos to fund these obligations. The Corporation has the option to purchase these casinos. Future minimum obligations, based on there being adequate cash flow, are as follows:

($ thousands)	Halifax	Sydney	Total
2002	$ 28,768	$ 3,400	$ 32,168
2003	19,797	3,121	22,918
2004	18,269	2,843	21,112
2005	16,741	2,564	19,305
2006	15,214	793	16,007
Subsequently	14,757	–	14,757
Net minimum obligation	113,546	12,721	126,267
Less: amount representing interest at 12%	28,655	2,665	31,320
Present value of minimum obligation	84,891	10,056	94,947
Less: amount due within one year	20,175	2,321	22,496
Balance of obligation	$ 64,716	$ 7,735	$ 72,451

9 Capital Replacement Reserve Liability

($ thousands)	Halifax	Sydney	2001	2000
Cash balance, beginning of year	$2,388	$1,311	$3,699	$3,440
Funding	1,038	466	1,504	1,263
Interest	211	103	314	166
Capital asset purchases	(64)	(373)	(437)	(1,170)
Cash balance, end of year	3,573	1,507	5,080	3,699
Add: cumulative capital asset purchases	1,484	1,041	2,525	2,086
Less: accumulated amortization	(751)	(387)	(1,138)	(656)
Balance, end of year	$4,306	$2,161	$6,467	$5,129

10 Related Party Transactions

The Province of Nova Scotia, Nova Scotia Harness Racing Incorporated, Atlantic Gaming Equipment Limited and Atlantic Lottery Corporation Inc. are related parties of the Corporation. Details of any transactions between these related parties are separately disclosed in the financial statements.

11 Harness Racing

The Corporation annually contributes to the Nova Scotia Harness Racing Fund amounts approved by the Minister of Finance. In March 2000, Government approved a contribution of up to $1 million in 2000-01 to support the harness racing industry in Nova Scotia.

In March 2001, Government approved a $1 million contribution in 2001-02 to support the harness racing industry in Nova Scotia.

12 Due to Operators

($ thousands)	2001	Restated 2000
Due to Atlantic Lottery Corporation	$ 786	$ (2,039)
Due to Metropolitan Entertainment Group	–	3,798
Due from Lottery Operations	(6,396)	(5,156)
Due to Lottery Operations	5,789	6,407
Due to Casino Operations	9,943	5,958
	$ 10,122	$ 8,968

13 GST/HST

On September 16, 1998, the draft *Games of Chance (GST) Regulations* were promulgated and took effect because of a "coming into force" provision retroactive to February 15, 1995. As a result of these changes, the Corporation expensed $362,000 during the year ended March 31, 2000.

14 Other Commitments

The Corporation is required to make annual lease payments of approximately $82,000 over the next five years.

The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum lease payments for the premises is $5,143,000. Its share of commitments to acquire on-line and video lottery terminals in 2001-02 is $13,772,000.

15 Other Contingencies

a) A former Director of the Corporation has commenced legal action against the Corporation alleging constructive dismissal and claiming damages for that dismissal.

b) The Corporation is required to review and approve the development costs of the Halifax permanent casino. Based upon this review, the Corporation believes that certain of the amounts submitted for approval do not fall within the parameters of the Halifax Casino Construction Contract. As a result, the Corporation has accounted for the Halifax permanent casino based upon development costs of $89.0 million. It is currently expected that the matter will be resolved in accordance with the dispute resolution clause in the Halifax Casino Construction Contract. Any necessary adjustments to the development costs will be accounted for in 2001-02.

16 Comparative Figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in this fiscal year.

17 Pensions

All permanent employees of the Corporation are entitled to receive pension benefits under the Province of Nova Scotia *Public Service Superannuation Act*. The plan is funded by equal employee and employer contributions. The employer contributions are included in the Corporation's management expenses. The Corporation is not responsible for any unfunded liability with respect to the superannuation fund.

Notes to the Financial Statements
(continued)

6 Interprovincial Lottery Corporation

The Interprovincial Lottery Corporation was incorporated on August 16, 1976, under the *Canada Business Corporations Act*. Interprovincial Lottery Corporation owns and operates nation-wide lottery games (Lotto 6/49, Super 7, Special Event – Celebration). Nova Scotia holds one of ten shares of this Corporation, and appoints one of 21 directors to the Board of Directors of the Interprovincial Lottery Corporation.

7 Capital Assets

($ thousands)	Cost	Accumulated Amortization	2001 Net Book Value	Restated 2000 Net Book Value
Automotive	$ 576	$ 112	$ 464	$ –
Computer equipment	4,824	2,876	1,948	633
Furniture & equipment	129	44	85	205
Leaseholds	608	170	438	1,009
Halifax casino assets	89,118	2,958	86,160	–
Sydney casino assets	23,206	9,492	13,714	15,035
Casino furniture & equipment	2,524	1,138	1,386	1,429
On-line gaming terminals	8,870	634	8,236	7,111
Video lottery terminals	23,366	21,104	2,262	2,290
	$153,221	$38,528	$114,693	$27,712

8 Capital Obligation

The Corporation has an obligation to repay the operator of the casinos under the Operating Contract for the initial cost of the Halifax and Sydney casinos to the extent that there is adequate cash flow from the casinos to fund these obligations. The Corporation has the option to purchase these casinos. Future minimum obligations, based on there being adequate cash flow, are as follows:

($ thousands)	Halifax	Sydney	Total
2002	$ 28,768	$ 3,400	$ 32,168
2003	19,797	3,121	22,918
2004	18,269	2,843	21,112
2005	16,741	2,564	19,305
2006	15,214	793	16,007
Subsequently	14,757	–	14,757
Net minimum obligation	113,546	12,721	126,267
Less: amount representing interest at 12%	28,655	2,665	31,320
Present value of minimum obligation	84,891	10,056	94,947
Less: amount due within one year	20,175	2,321	22,496
Balance of obligation	$ 64,716	$ 7,735	$ 72,451

9 Capital Replacement Reserve Liability

($ thousands)	Halifax	Sydney	2001	2000
Cash balance, beginning of year	$2,388	$1,311	$3,699	$3,440
Funding	1,038	466	1,504	1,263
Interest	211	103	314	166
Capital asset purchases	(64)	(373)	(437)	(1,170)
Cash balance, end of year	3,573	1,507	5,080	3,699
Add: cumulative capital asset purchases	1,484	1,041	2,525	2,086
Less: accumulated amortization	(751)	(387)	(1,138)	(656)
Balance, end of year	$4,306	$2,161	$6,467	$5,129

10 Related Party Transactions

The Province of Nova Scotia, Nova Scotia Harness Racing Incorporated, Atlantic Gaming Equipment Limited and Atlantic Lottery Corporation Inc. are related parties of the Corporation. Details of any transactions between these related parties are separately disclosed in the financial statements.

11 Harness Racing

The Corporation annually contributes to the Nova Scotia Harness Racing Fund amounts approved by the Minister of Finance. In March 2000, Government approved a contribution of up to $1 million in 2000-01 to support the harness racing industry in Nova Scotia.

In March 2001, Government approved a $1 million contribution in 2001-02 to support the harness racing industry in Nova Scotia.

12 Due to Operators

($ thousands)	2001	Restated 2000
Due to Atlantic Lottery Corporation	$ 786	$ (2,039)
Due to Metropolitan Entertainment Group	–	3,798
Due from Lottery Operations	(6,396)	(5,156)
Due to Lottery Operations	5,789	6,407
Due to Casino Operations	9,943	5,958
	$ 10,122	$ 8,968

13 GST/HST

On September 16, 1998, the draft *Games of Chance (GST) Regulations* were promulgated and took effect because of a "coming into force" provision retroactive to February 15, 1995. As a result of these changes, the Corporation expensed $362,000 during the year ended March 31, 2000.

14 Other Commitments

The Corporation is required to make annual lease payments of approximately $82,000 over the next five years.

The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum lease payments for the premises is $5,143,000. Its share of commitments to acquire on-line and video lottery terminals in 2001-02 is $13,772,000.

15 Other Contingencies

a) A former Director of the Corporation has commenced legal action against the Corporation alleging constructive dismissal and claiming damages for that dismissal.

b) The Corporation is required to review and approve the development costs of the Halifax permanent casino. Based upon this review, the Corporation believes that certain of the amounts submitted for approval do not fall within the parameters of the Halifax Casino Construction Contract. As a result, the Corporation has accounted for the Halifax permanent casino based upon development costs of $89.0 million. It is currently expected that the matter will be resolved in accordance with the dispute resolution clause in the Halifax Casino Construction Contract. Any necessary adjustments to the development costs will be accounted for in 2001-02.

16 Comparative Figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in this fiscal year.

17 Pensions

All permanent employees of the Corporation are entitled to receive pension benefits under the Province of Nova Scotia *Public Service Superannuation Act*. The plan is funded by equal employee and employer contributions. The employer contributions are included in the Corporation's management expenses. The Corporation is not responsible for any unfunded liability with respect to the superannuation fund.

Notes to the Financial Statements
(continued)

Change in Accounting Policy

During the year, the Corporation changed its method of accounting for casino capital assets. This policy has been adopted retroactively, resulting in the restatement of the March 31, 2000 results. The impact of this restatement on the March 31, 2000 financial statements is as follows:

($ thousands)	As Reported	Adjustment	Restated
As at March 31, 2000:			
Sydney Casino Assets	$ –	$ 15,035	$ 15,035
Casino Furniture and Equipment	–	1,429	1,429
Casino Capital Replacement Reserve Cash	–	3,699	3,699
Casino Capital Replacement Reserve Liability	–	5,129	5,129
Capital Obligation	–	12,376	12,376
Due to Province of Nova Scotia	$ 5,411	$ 2,658	$ 8,069
For the year ended March 31, 2000:			
Amortization Expense – Sydney Casino	$ –	$ 1,816	$ 1,816
Interest – Sydney Casino	–	1,636	1,636
Amortization of Capital Investment and Interest	$ 3,957	$ (3,957)	$ –

The impact of this restatement on the March 31, 2001 financial statements is as follows:

	As Reported	Adjustment	Restated
As at March 31, 2001:			
Halifax Casino Assets	$ –	$ 86,160	$ 86,160
Sydney Casino Assets	–	13,714	13,714
Casino Furniture and Equipment	–	1,386	1,386
Casino Capital Replacement Reserve Cash	–	5,080	5,080
Casino Capital Replacement Reserve Liability	–	6,467	6,467
Capital Obligation	–	94,947	94,947
Due to Province of Nova Scotia	$ 8,780	$ 4,926	$ 13,706
For the year ended March 31, 2001:			
Amortization Expense – Halifax	$ –	$ 2,958	$ 2,958
Interest – Halifax	–	9,369	9,369
Amortization of Capital Investment and Interest – Halifax	13,596	(13,596)	–
Amortization Expense – Sydney	–	1,321	1,321
Interest – Sydney	–	1,358	1,358
Amortization of Capital Investment and Interest – Sydney	$ 3,678	$ (3,678)	$ –

Subsequent Event

Casino Nova Scotia has engaged a consultant to review the HST Regulations applicable to casino operations and determine whether there are potential HST savings. In May 2001, the Corporation received $556,000 in HST savings related to the period June 1995 to February 2001. All adjustments are recorded in the period received. The interpretation of the HST Regulations for other costs is currently under review.

Ticket Lottery and Video Lottery Operating Results

for the year ended March 31, 2001 (in thousands)

SCHEDULE I

	Ticket Lottery	Video Lottery	Overhead	Total 2001	Total 2000 (Note 16)
Ticket Lottery Sales	$204,055	$ –	$ –	$204,055	$194,620
Ticket Lottery Sales Discounts	62	–	–	62	65
Prize Expense	107,528	–	–	107,528	103,666
Net Ticket Lottery Sales	96,465	–	–	96,465	90,889
Net Video Lottery Sales	–	146,497	–	146,497	138,242
Total Net Sales	96,465	146,497	–	242,962	229,131
Retailer Commissions	13,200	31,516	–	44,716	42,173
Ticket Costs	5,057	136	–	5,193	4,501
	18,257	31,652	–	49,909	46,674
Gross Profit	78,208	114,845	–	193,053	182,457
Operating Expenses					
Salaries & Benefits	5,015	2,435	1,743	9,193	8,112
Travel & Vehicle Expenses	993	518	238	1,749	1,514
General & Professional Services	521	21	516	1,058	1,215
Occupancy Cost	407	200	617	1,224	1,219
Office & Miscellaneous	447	84	269	800	975
Equipment & Maintenance	1,054	1,307	536	2,897	2,180
Telecommunication	1,624	61	450	2,135	1,799
Advertising	3,643	10	321	3,974	3,892
Depreciation & Amortization	1,474	1,338	267	3,079	1,957
Total Operating Expenses	15,178	5,974	4,957	26,109	22,863
Operating Profit	63,030	108,871	(4,957)	166,944	159,594
Other Income *(expenses)*	201	974	(9)	1,166	997
Profit Before Other Distributions	63,231	109,845	(4,966)	168,110	160,591
HST Expense	4,738	5,080	397	10,215	9,538
Federal Contribution	–	–	1,516	1,516	1,453
Charity Non-Profit	45	–	–	45	28
Retailer Bonus	4,670	–	–	4,670	4,630
Net Profit	$ 53,778	$ 104,765	$ (6,879)	$151,664	$144,942

Notes to the Financial Statements
(continued)

18 Change in Accounting Policy

During the year, the Corporation changed its method of accounting for casino capital assets. This policy has been adopted retroactively, resulting in the restatement of the March 31, 2000 results. The impact of this restatement on the March 31, 2000 financial statements is as follows:

($ thousands)	As Reported	Adjustment	Restated
As at March 31, 2000:			
Sydney Casino Assets	$ –	$ 15,035	$ 15,035
Casino Furniture and Equipment	–	1,429	1,429
Casino Capital Replacement Reserve Cash	–	3,699	3,699
Casino Capital Replacement Reserve Liability	–	5,129	5,129
Capital Obligation	–	12,376	12,376
Due to Province of Nova Scotia	$ 5,411	$ 2,658	$ 8,069
For the year ended March 31, 2000:			
Amortization Expense – Sydney Casino	$ –	$ 1,816	$ 1,816
Interest – Sydney Casino	–	1,636	1,636
Amortization of Capital Investment and Interest	$ 3,957	$ (3,957)	$ –

The impact of this restatement on the March 31, 2001 financial statements is as follows:

	As Reported	Adjustment	Restated
As at March 31, 2001:			
Halifax Casino Assets	$ –	$ 86,160	$ 86,160
Sydney Casino Assets	–	13,714	13,714
Casino Furniture and Equipment	–	1,386	1,386
Casino Capital Replacement Reserve Cash	–	5,080	5,080
Casino Capital Replacement Reserve Liability	–	6,467	6,467
Capital Obligation	–	94,947	94,947
Due to Province of Nova Scotia	$ 8,780	$ 4,926	$ 13,706
For the year ended March 31, 2001:			
Amortization Expense – Halifax	$ –	$ 2,958	$ 2,958
Interest – Halifax	–	9,369	9,369
Amortization of Capital Investment and Interest – Halifax	13,596	(13,596)	–
Amortization Expense – Sydney	–	1,321	1,321
Interest – Sydney	–	1,358	1,358
Amortization of Capital Investment and Interest – Sydney	$ 3,678	$ (3,678)	$ –

19 Subsequent Event

Casino Nova Scotia has engaged a consultant to review the HST Regulations applicable to casino operations and determine whether there are potential HST savings. In May 2001, the Corporation received $556,000 in HST savings related to the period June 1995 to February 2001. All adjustments are recorded in the period received. The interpretation of the HST Regulations for other costs is currently under review.

Ticket Lottery and Video Lottery Operating Results

for the year ended March 31, 2001 (in thousands)

SCHEDULE I

	Ticket Lottery	Video Lottery	Overhead	Total 2001	Total 2000 (Note 16)
Ticket Lottery Sales	$204,055	$ –	$ –	$204,055	$194,620
Ticket Lottery Sales Discounts	62	–	–	62	65
Prize Expense	107,528	–	–	107,528	103,666
Net Ticket Lottery Sales	96,465	–	–	96,465	90,889
Net Video Lottery Sales	–	146,497	–	146,497	138,242
Total Net Sales	96,465	146,497	–	242,962	229,131
Retailer Commissions	13,200	31,516	–	44,716	42,173
Ticket Costs	5,057	136	–	5,193	4,501
	18,257	31,652	–	49,909	46,674
Gross Profit	78,208	114,845	–	193,053	182,457
Operating Expenses					
Salaries & Benefits	5,015	2,435	1,743	9,193	8,112
Travel & Vehicle Expenses	993	518	238	1,749	1,514
General & Professional Services	521	21	516	1,058	1,215
Occupancy Cost	407	200	617	1,224	1,219
Office & Miscellaneous	447	84	269	800	975
Equipment & Maintenance	1,054	1,307	536	2,897	2,180
Telecommunication	1,624	61	450	2,135	1,799
Advertising	3,643	10	321	3,974	3,892
Depreciation & Amortization	1,474	1,338	267	3,079	1,957
Total Operating Expenses	15,178	5,974	4,957	26,109	22,863
Operating Profit	63,030	108,871	(4,957)	166,944	159,594
Other Income *(expenses)*	201	974	(9)	1,166	997
Profit Before Other Distributions	63,231	109,845	(4,966)	168,110	160,591
HST Expense	4,738	5,080	397	10,215	9,538
Federal Contribution	–	–	1,516	1,516	1,453
Charity Non-Profit	45	–	–	45	28
Retailer Bonus	4,670	–	–	4,670	4,630
Net Profit	$ 53,778	$ 104,765	$ (6,879)	$151,664	$144,942

Halifax Casino Nova Scotia Operating Results

for the year ended March 31, 2001 (in thousands)

SCHEDULE II

	2001	2000
Casino Revenue	$ 63,157	$ 54,379
Win Tax	(12,631)	(10,876)
Casino Revenue After Win Tax	50,526	43,503
Beverage, Food and Other Revenue	6,025	1,256
Total Net Revenues	56,551	44,759
Operating Expenses		
Salaries and Benefits	18,855	13,636
Other Expenses Including Cost of Beverage and Food	4,575	1,432
Public Education and Problem Gaming Contribution	686	670
General Administration and Marketing	6,660	5,298
Premise Expense	2,868	1,792
Interest	9,369	-
Amortization	2,958	-
Harmonized Sales Tax	7,168	3,784
	53,139	26,612
Income Before Payments to Operator	3,412	18,147
Payments to Operator *(Note 3)*		
Capital Replacement Reserve	1,038	835
Operator Fee	387	6,059
	1,425	6,894
Net Operating Income	$ 1,987	$ 11,253

Sydney Casino Nova Scotia Operating Results

for the year ended March 31, 2001 (in thousands)

SCHEDULE III

	2001	Restated 2000 *(Note 18)*
Casino Revenue	$ 29,305	$ 26,901
Win Tax	(5,861)	(5,380)
Casino Revenue After Win Tax	23,444	21,521
Beverage, Food and Other Revenue	1,724	1,615
Total Net Revenues	25,168	23,136
Operating Expenses		
Salaries and Benefits	6,167	6,078
Other Expenses Including Cost of Beverage and Food	1,546	1,329
Public Education and Problem Gaming Contribution	314	330
General Administration and Marketing	2,585	2,758
Premise Expense	749	760
Interest	1,358	1,636
Amortization	1,321	1,816
Harmonized Sales Tax	2,562	2,542
	16,602	17,249
Income Before Payments to Operator	8,566	5,887
Payments to Operator *(Note 3)*		
Capital Replacement Reserve	466	428
Base Fee	931	855
Incentive Fee	1,106	924
	2,503	2,207
Net Operating Income	$ 6,063	$ 3,680

Halifax Casino Nova Scotia Operating Results

for the year ended March 31, 2001 (in thousands)

SCHEDULE II

	2001	2000
Casino Revenue	$ 63,157	$ 54,379
Win Tax	(12,631)	(10,876)
Casino Revenue After Win Tax	50,526	43,503
Beverage, Food and Other Revenue	6,025	1,256
Total Net Revenues	56,551	44,759
Operating Expenses		
Salaries and Benefits	18,855	13,636
Other Expenses Including Cost of Beverage and Food	4,575	1,432
Public Education and Problem Gaming Contribution	686	670
General Administration and Marketing	6,660	5,298
Premise Expense	2,868	1,792
Interest	9,369	-
Amortization	2,958	-
Harmonized Sales Tax	7,168	3,784
	53,139	26,612
Income Before Payments to Operator	3,412	18,147
Payments to Operator *(Note 3)*		
Capital Replacement Reserve	1,038	835
Operator Fee	387	6,059
	1,425	6,894
Net Operating Income	$ 1,987	$ 11,253

Sydney Casino Nova Scotia Operating Results

for the year ended March 31, 2001 (in thousands)

SCHEDULE III

	2001	Restated 2000 *(Note 18)*
Casino Revenue	$ 29,305	$ 26,901
Win Tax	(5,861)	(5,380)
Casino Revenue After Win Tax	23,444	21,521
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Incentive Fee	1,106	924
	2,503	2,207
Net Operating Income	$ 6,063	$ 3,680

Management Expenses

for the year ended March 31, 2001 (in thousands)

SCHEDULE IV

	2001	2000
Advertising	$ 16	$ 10
Amortization	27	25
Directors' Fees	25	112
Harmonized Sales Tax *(Note 13)*	273	656
Membership Dues	8	7
Occupancy Taxes	5	2
Office and Miscellaneous	49	41
Office Equipment	24	14
Periodicals	10	12
Postage and Freight	9	10
Printing and Stationery	18	27
Professional and Other Fees	702	478
Rent	57	45
Salaries and Benefits	1,233	832
Telecommunications	10	30
Training	44	15
Travel	32	35
	$ 2,542	$ 2,351

Management Expenses

for the year ended March 31, 2001 (in thousands)

SCHEDULE IV

	2001	2000
Advertising	$ 16	$ 10
Amortization	27	25
Directors' Fees	25	112
Harmonized Sales Tax *(Note 13)*	273	656
Membership Dues	8	7
Occupancy Taxes	5	2
Office and Miscellaneous	49	41
Office Equipment	24	14
Periodicals	10	12
Postage and Freight	9	10
Printing and Stationery	18	27
Professional and Other Fees	702	478
Rent	57	45
Salaries and Benefits	1,233	832
Telecommunications	10	30
Training	44	15
Travel	32	35
	$ 2,542	$ 2,351